

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF INDIANA GAS COMPANY, INC. d/b/a)
VECTREN ENERGY DELIVERY OF INDIANA, INC.)
("VECTREN NORTH") FOR (1) AUTHORITY TO)
INCREASE ITS RATES AND CHARGES FOR GAS)
UTILITY SERVICE; (2) APPROVAL OF NEW)
SCHEDULES OF RATES AND CHARGES)
APPLICABLE THERETO; (3) AUTHORITY, TO THE)
EXTENT NECESSARY AS AN ALTERNATIVE)
REGULATORY PLAN, TO TRACK ITS)
UNACCOUNTED FOR GAS COSTS AND THE GAS)
COST COMPONENT OF ITS BAD DEBT EXPENSE IN)
ITS GAS COST ADJUSTMENT FILINGS; (4))
APPROVAL OF A DISTRIBUTION REPLACEMENT)
ADJUSTMENT TO RECOVER THE COSTS OF A)
PROGRAM FOR THE ACCELERATED)
REPLACEMENT OF CAST IRON MAINS AND BARE)
STEEL MAINS AND SERVICE LINES; (5) APPROVAL)
OF REVISIONS TO THE SALES RECONCILIATION)
COMPONENT OF THE ENERGY EFFICIENCY RIDER)
APPROVED IN CAUSE NOS. 42943 AND 43046 TO)
PROVIDE FOR RECOVERY OF 100% OF THE)
DIFFERENCE BETWEEN ACTUAL AND APPROVED)
MARGINS; (6) APPROVAL OF VARIOUS CHANGES)
TO ITS TARIFF FOR GAS SERVICE, INCLUDING)
INCREASES IN CERTAIN NON-RECURRING)
CHARGES; AND (7) CONSIDERATION AND)
APPROVAL IN PHASE II OF THE PROCEEDING OF)
AN ALTERNATIVE REGULATORY PLAN FOR A)
REVENUE STABILIZATION PLAN)

FILED

MAY 18 2007

INDIANA UTILITY
REGULATORY COMMISSION

43298

CAUSE NO. _____

**VERIFIED PETITION AND NOTICE OF INTENT TO FILE IN
ACCORDANCE WITH MINIMUM STANDARD FILING REQUIREMENTS**

INDIANA GAS COMPANY, INC. d/b/a VECTREN ENERGY DELIVERY OF
INDIANA, INC. ("Petitioner" or "Vectren North") respectfully requests authority to increase its
rates and charges for gas utility service rendered by it; approval of new schedules of rates and
charges applicable thereto; authority to track its unaccounted for gas costs and the gas cost
component of its bad debt expense in its gas cost adjustment filings made pursuant to Ind. Code

§ 8-1-2-42(g); approval of a Distribution Replacement Adjustment to recover the costs of a program for the accelerated replacement of cast iron mains and bare steel mains and service lines; approval of a revision to the Sales Reconciliation Component of the Energy Efficiency Rider approved in Cause Nos. 42943 and 43046 to provide for recovery of 100% of the difference between Petitioner's actual margin and the margin approved in this cause; approval of various changes to its tariff for gas service, including increases in certain non-recurring charges, and to conduct Phase II of this proceeding after completion of the base rate case to consider, and approve, an alternative regulatory plan pursuant to Ind. Code § 8-1-2.5-6 for a Revenue Stabilization Plan. In support of this request, Petitioner respectfully shows the Commission:

1. Petitioner's Corporate and Regulated Status. Petitioner is an operating public utility, incorporated under the laws of the State of Indiana, with its principal office and place of business in the City of Evansville, Indiana. Petitioner is a public utility as defined in Ind. Code § 8-1-2-1(a) and an energy utility as defined in Ind. Code § 8-1-2.5-2 and is subject to regulation by the Commission in the manner and to the extent provided by the laws of the State of Indiana, including Ind. Code § 8-1-2-1 *et seq.*

2. Petitioner's Operations. Petitioner provides gas utility service to approximately 565,000 customers in forty-nine (49) counties in central and southern Indiana. Petitioner renders such gas utility service by means of utility plant, property, equipment and related facilities owned, leased, operated, managed and controlled by it (collectively referred to as the "Utility Properties") which are used and useful for the convenience of the public in the production, treatment, transmission, distribution and sale of gas.

3. Petitioner's Utility Properties. As of December 31, 2006, the original cost of Petitioner's gas utility plant in service was approximately \$1,343,400,000. After deduction of accumulated depreciation of approximately \$630,000,000, the net original cost of Petitioner's utility plant in service was approximately \$713,400,000 at the same date. Petitioner is continuing to make additional investments that are reasonably necessary for Petitioner to properly serve the public located in its service area and to discharge its duties as a public utility. The fair value of the Utility Properties is and will continue to be substantially in excess of the original cost thereof.

4. Petitioner's Existing Rates. Petitioner's existing basic rates and charges for gas utility service were established pursuant to the Commission's Order dated November 30, 2004 in Cause No. 42598.

5. Petitioner's Operating Results Under Existing Rates. Since its rates and charges for gas utility service were last established, Petitioner has continued to make significant capital expenditures for additions, replacements and improvements to its Utility Properties. At the same time, expenses and other costs have increased. Petitioner is also undertaking significant new capital improvements to its system including a 12-inch pipeline project near Greencastle and the Greensburg pipeline and system upgrade project approved by the Commission in its Order in Cause No. 43098 dated December 13, 2006. As a result, Petitioner's return upon its Utility Properties is, and will continue to be, below the level required to permit Petitioner to earn a fair return upon the fair value of its Utility Properties; to provide revenues which will enable it to continue to attract capital required for additions, replacements and improvements to its Utility Properties at a reasonable cost; to maintain and support Petitioner's credit; to assure confidence in Petitioner's financial soundness; and to earn a return on the value of its Utility Properties

equal to that available on other investments of comparable risk. As a consequence, Petitioner's existing rates and charges are now, and will continue to be, insufficient to provide revenues adequate to cover its necessary and reasonable operating expenses and provide the opportunity to earn the fair return to which Petitioner is lawfully entitled. The existing rates of Petitioner, therefore, are unjust, unreasonable, insufficient and confiscatory and should be increased.

6. Petitioner's Proposed Rates and Charges and Tariff Terms. Petitioner requests that new rates and charges be authorized that will enable Petitioner to realize a proper and adequate net operating income to render safe, adequate and continuous gas utility service to the public. Petitioner proposes to cancel its existing rate schedules governing the gas utility service rendered by it and to file with the Commission in lieu thereof new schedules of rates and charges applicable thereto. The proposed rate schedules will be set forth in the exhibits that Petitioner will offer as evidence in this proceeding.

7. Unaccounted For Gas Costs. Under Petitioner's current rate design, unaccounted for gas ("UAFG") costs are included in base rates in an amount reflecting a historical UAFG percentage. Although Petitioner has been successful in maintaining a relatively low UAFG percentage, the inclusion of UAFG costs in base rates is no longer an accurate method of cost recovery because of the extreme increase in gas price volatility that has occurred in recent years and is expected to continue in the foreseeable future due to market conditions over which Petitioner has no control. In these circumstances, the current rate design creates a high risk of over recovery and under recovery of UAFG costs. In order to eliminate this risk to its customers and the Company and to improve the accuracy of UAFG cost recovery, Petitioner proposes that UAFG costs be included in the revenue requirement used to establish base rates in this proceeding, but that the Commission authorize Petitioner (to the extent necessary as an

alternative regulatory plan) to track the difference between the base rate amount and the actual UAFG costs in Petitioner's quarterly gas cost adjustment ("GCA") filings made pursuant to Ind. Code § 8-1-2-42(g). This proposed recovery method is permitted by the GCA statute, would require only minor changes to the Petitioner's GCA schedules, and is consistent with the way UAFG costs are recovered in many other jurisdictions. Petitioner's proposal will ensure that Petitioner will recover no more and no less than the actual UAFG cost incurred by it in providing service to its sales customers, as is the case with the other gas costs recovered in the GCA. For gas volumes delivered by transportation customers, school suppliers and pool operators, Petitioner proposes that the UAFG percentage determined in this proceeding be applicable, until further revised and approved by the Commission. Petitioner will continue to report its UAFG percentage and volumes on GCA Schedule 11A on an annual basis to allow the Commission and other interested parties to review the reasonableness of Petitioner's UAFG level.

8. The Gas Cost Component of Bad Debt Expense. Petitioner incurs gas costs in order to ensure the reliable supply of gas to its customers. Petitioner's gas costs are recovered in its GCA. The GCA mechanism in its current form determines the GCA by dividing Petitioner's gas costs by its sales volume. However, when customers do not, or cannot, pay their bills and collection efforts are unsuccessful, Petitioner must write-off the uncollected amount as bad debt expense. Approximately 70% of these uncollected bills represents gas costs that have been incurred by Petitioner. In the past, when gas costs were more stable and lower, a representative level of bad debt expense, including the gas cost component, was recovered in base rates. But today, as discussed above, gas costs are much higher and much more volatile than in the past. Therefore, Petitioner proposes that the gas cost component of bad debt expense be included in the revenue requirement used to establish base rates in this proceeding, but that the Commission

authorize Petitioner (to the extent necessary as an alternative regulatory plan) to track in its quarterly GCA filings the difference between the base rate amount and the actual bad debt gas costs. Including the gas cost component of bad debt expense in the GCA is permitted by the GCA statute and is the most accurate and appropriate way to recover these gas costs, especially given the very high and volatile market price for gas. Petitioner's case-in-chief will include proposed GCA schedules that would be used to effectuate this change. If its proposal is approved, Petitioner will report to the Commission annually on its actual bad debt experience, so the Commission may review the reasonableness of Petitioner's bad debt expense level.

9. Distribution Replacement Adjustment. Petitioner requests that the Commission approve a Distribution Replacement Adjustment ("DRA") that will allow Petitioner to recover the capital costs, depreciation expense and property taxes associated with a 20-year Program to accelerate the replacement of cast iron mains and bare steel mains and service lines. The DRA is needed to make it economically feasible for Petitioner to make the sizeable incremental investments in non-revenue producing plant that is necessary to replace this aging infrastructure. The Program will provide a number of benefits related to reliability of service, public safety and, over time, the reduction of future maintenance expenses. Petitioner's proposed DRA will be described in detail in its case-in-chief and will include the regular submission of program construction plans to the Commission, and annual filings to submit evidence as to the incremental investments made pursuant to the Program in the prior year, the revenue requirement relating thereto, the derivation of DRA factors to recover the revenue requirement and adjustments to the earnings test applied in GCA proceedings to provide Petitioner with the opportunity to retain a return on its DRA investment. In such filings, Petitioner will also reduce the revenue requirement to reflect maintenance expense savings attributable to the Program,

based on the miles of main that have been replaced. The Program costs will be allocated to the rate schedules based on the distribution mains allocation percentages in Petitioner's cost of service study. As program investments are included in rate base in future base rate orders, such costs will be removed from the DRA.

10. Sales Reconciliation Component. The Energy Efficiency Rider approved in the Commission's Order in Cause Nos. 42943 and 42046 dated December 1, 2006 includes a Sales Reconciliation Component ("SRC") pursuant to which adjustments are made for differences between Petitioner's actual margins from Residential and General Service customers and the margins approved by the Commission in establishing base rates. The Settlement Agreement approved in Cause Nos. 42943 and 42046 provided that "[t]o reflect the fact that implementation of the SRC will occur between rate cases without an opportunity to fully review the implications on Vectren Energy's financial performance," the margin difference otherwise recoverable via the SRC will be reduced by 15%. Efficiency Settlement ¶27. Because this is a base rate proceeding in which Petitioner's financial performance will be completely reviewed, Petitioner proposes that the Commission authorize Petitioner to recover through the SRC 100% of the difference between its actual margins and the margins approved in this proceeding, as adjusted to reflect changes in the number of customers as currently provided for in the SRC.

11. Other Tariff Revisions. Petitioner will propose a number of revisions to its tariff for gas service that will be described in its case-in-chief, including but not limited to certain increases in non-recurring charges and other changes for improved clarity and administrative simplification.

12. PHASE II--Revenue Stabilization Plan. Upon receipt of an order establishing new base rates, Petitioner will commence Phase II of this proceeding consisting of a proposal of a Revenue Stabilization Plan to become effective within the first year after implementation of the base rates authorized by the Commission in this proceeding. While the Plan will be presented in testimony submitted in Phase II, generally the concept of Revenue Stabilization entails completion on an annual basis of an expedited revenue study, with limited adjustments, to determine the revenue variance between Petitioner's authorized and actual returns on equity for the prior year. The calculated revenue variance is added to or subtracted from Petitioner's rates in the next year. To facilitate this process, an Annual Revenue Study and resulting Revenue Stabilization rates would be filed with the Commission, for review and approval prior to their implementation each year. Phase II may also consider setting a range of returns on equity to be used as part of the annual revenue variance calculation. The Revenue Stabilization Plan annual ROE review would replace the current GCA NOI-based earnings test. This form of ratemaking has been adopted in other states, and represents efficient regulation that provides gas utilities with improved financial stability that provides favorable access to capital and, if well designed, provides all stakeholders with comfort related to the reasonableness of the utility's yearly financial performance.

13. Alternative Regulatory Plans. Petitioner requests that the Revenue Stabilization Plan be approved by the Commission as an alternative regulatory plan pursuant to Ind. Code § 8-1-2.5-6. The Revenue Stabilization Plan is in the public interest; will be beneficial to Petitioner, its customers and the state; and will promote administrative efficiency. To the extent any other proposals of Petitioner (such as its proposal to include UAFG costs and the gas cost component of bad debt expense in its GCA filings) would require Commission approval under Ind. Code

§ 8-1-2.5-6 as an alternative regulatory practice, procedure, mechanism or plan, Petitioner requests that the Commission provide any required approval thereunder. Pursuant to Ind. Code § 8-1-2.5-4, Petitioner elects to become subject to Ind. Code § 8-1-2.5-6 for purposes of the proposed Revenue Stabilization Plan and any other proposals that may require approval under that statute.

14. Notice Of Intent To File In Accordance With Minimum Standard Filing Requirements. Petitioner hereby provides notice to the Commission of its election to proceed under the Commission's rules on Minimum Standard Filing Requirements, 170 IAC 1-5-1 et seq. ("MSFRs"). Petitioner's case-in-chief is being filed simultaneously with this petition in conformity with the MSFRs. Pursuant to 170 IAC 1-5-7 through 16, Petitioner will submit within two weeks the workpapers required by the MSFRs and direct testimony and exhibits on its proposed rate structure, cost of service study and proposed tariff.

15. Proposal For A Two Phase Proceeding. As referenced above, Petitioner proposes that this cause be processed in two phases. Under Petitioner's proposal, Phase I will consist of all issues other than Petitioner's proposed Revenue Stabilization Plan. The schedule for Phase I would be designed to permit receipt of an Order on Phase I issues within the time frame provided under the MSFR Rules. The subject of Phase II would be Petitioner's proposed Revenue Stabilization Plan. Phase II would begin immediately after issuance of the Order in Phase I. The schedule for Phase II would be designed to permit receipt of a Commission Order within one year after the implementation of new base rates pursuant to the Phase I Order. Petitioner believes this two phase procedure will allow timely receipt of a base rate order in Phase I and an orderly and efficient consideration of the Revenue Stabilization Plan.

16. Test Year, Rate Base and Other Procedures For Phase I. Petitioner is utilizing in this proceeding a test year of the twelve (12) months ended December 31, 2006. Petitioner hereby provides notice to the Commission of its election to proceed and the procedures provided for in the Commission's Rules on MSFRs. Petitioner requests that the Commission set a procedural schedule that will allow it to issue an order on Petitioner's requested rate increase and the other Phase I proposals made herein within the time schedule provided in 170 IAC 1-5-2(c)(4) of the Commission's MSFR Rules. Pursuant to 170 IAC 1-5-5(4), Petitioner identifies the following as major projects to be completed in the future for which a rate base adjustment will be made: (a) the Greencastle 12 inch transmission line; and (b) the Greensburg pipeline and system upgrade project approved by the Commission in its Order in Cause No. 43098 dated December 13, 2006. Petitioner requests that the Prehearing Conference Order provide that if either or both of these projects are not in service by the deadline in 170 IAC 1-5-5(4)(E), the project will be includible in Petitioner's rate base in this proceeding, provided that prior to implementing new base rates approved in Phase I, Petitioner files a verified certification attesting to the in-service date of the project and that the actual costs are not less than the estimate presented in the evidentiary record.

17. Prehearing Conference and Preliminary Hearing Requested. Pursuant to 170 IAC 1-1.1-15(b) of the Commission's Rules of Practice and Procedure, Petitioner requests that a date be promptly fixed for a prehearing conference and preliminary hearing for the purpose of fixing a procedural schedule in this proceeding and considering other procedural matters.

18. Customer Notification. Petitioner will provide its customers with a notice summarizing the nature and extent of the proposed rate changes as required by the Commission's rules.

19. Applicable Statutory Provisions. Petitioner considers that the provisions of Ind. Code §§ 8-1-2-4, 6, 7, 9, 24, 25, 38, 42, 61, 68 and 71, and Ind. Code § 8-1-2.5-6, among others, are applicable to the subject matter of this petition.

20. Attorneys for Petitioner. Robert E. Heidorn (Atty. No. 14264-49), VECTREN CORPORATION, One Vectren Square, 211 N.W. Riverside Drive, Evansville, Indiana 47708, and Daniel W. McGill (Atty. No. 9489-49), BARNES & THORNBURG LLP, 11 South Meridian Street, Indianapolis, Indiana 46204 are counsel for Petitioner and are duly authorized to accept service of papers in this Cause on Petitioner's behalf.

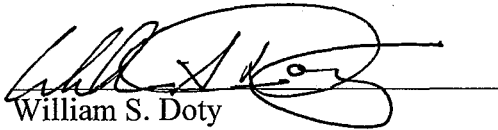
WHEREFORE, Petitioner respectfully prays that the Commission promptly conduct a prehearing conference and preliminary hearing and expeditiously make such investigation and hold such hearings as are necessary or advisable in this Cause. Thereafter, Petitioner respectfully prays that the Commission issue an Order:

- (1) Finding that Petitioner's existing rates for gas utility service are unjust, unreasonable, insufficient, and confiscatory and inadequate to provide a fair return on the fair value of Petitioner's Utility Properties used and useful for the convenience of the public in rendering gas utility service;
- (2) Determining and by order fixing increased rates and charges to be imposed, observed and followed in the future by Petitioner in lieu of those so found to be unjust, unreasonable, insufficient and confiscatory;

- (3) Authorizing and approving the filing by Petitioner of new schedules of increased rates and charges applicable to its gas utility service so as to provide just, reasonable, sufficient and nonconfiscatory rates;
- (4) Authorizing Petitioner to track its unaccounted for gas costs and the gas cost component of bad debt expense in its quarterly GCA filings;
- (5) Authorizing Petitioner to implement a Distribution Replacement Adjustment as described above and in Petitioner's evidence submitted herein;
- (6) Authorizing Petitioner to recover via the Sales Reconciliation Component of its Energy Efficiency Rider 100% of the difference between its actual margins and the margins approved herein;
- (7) Approving various changes in the terms, conditions and provisions of Petitioner's tariff applicable to its gas utility service as proposed in Petitioner's evidence herein, including increases in certain non-recurring charges;
- (8) Authorizing Petitioners to implement the proposed Revenue Stabilization Plan as described above and in Petitioner's evidence to be submitted herein; and
- (9) Granting such other and further relief as may be appropriate and proper.

INDIANA GAS COMPANY, INC. d/b/a
VECTREN ENERGY DELIVERY OF INDIANA,
INC.

By:


William S. Doty
President

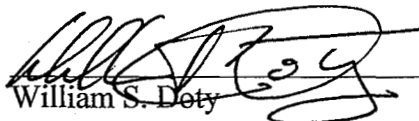
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VERIFICATION

I affirm under the penalties for perjury that the statements and representations in the foregoing Petition are true to the best of my knowledge, information and belief.


William S. Doty

CERTIFICATE OF SERVICE

The undersigned hereby certifies that two copies of the foregoing Petition And Notice Of Intent To File In Accordance With Minimum Standard Filing Requirements was served by delivery upon the Office of the Utility Consumer Counselor, 100 North Senate Avenue, Room N501, Indiana Government Center North, Indianapolis, Indiana 46204, this 18th day of May, 2007.


Daniel W. McGill

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